



Actuarial Office
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June 20, 2006

AGENDA ITEM 5

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: EFI's Parallel Valuation and Certification of the Judges' Retirement System II (JRSII) as of June 30, 2004

II. PROGRAM: Actuarial Office

III. RECOMMENDATION:

It is recommended that the Committee accept and recommend to the full Board the acceptance of EFI's report on the June 30, 2004 parallel valuation and certification of the actuarial valuation of the Judges' Retirement System II in completion of Task 3 of Contract 2003-3236. A copy of the report is included in Attachment 1.

IV. ANALYSIS:

EFI has recently completed a parallel actuarial valuation of Judges' Retirement System II as of June 30, 2004, and has certified that the liabilities and costs computed in the June 30, 2004 JRS II valuation are reasonable and were computed in accordance with generally accepted actuarial principles. EFI's independent parallel valuation of JRS II produced the employer cost as a percentage of covered payroll very close to that computed by CalPERS actuaries.

One minor issue regarding the amortization of the unfunded actuarial accrued liability was stated in EFI's technical analysis. Since the June 30, 2005 valuation report has been completed, we will revise the amortization payment for the June 30, 2006 valuation report to be within the 30-year limit as stated in the Amortization Policy in the valuation report. As EFI noted, the change in employer cost as a percentage of payroll reflecting the change is negligible.

An additional issue pointed out by EFI is that the amortization of the unfunded liability is computed as a percentage of payroll assuming that payroll will increase as new judges enter the system and that this is not in accordance with GASB 27 requirements. EFI further notes that this is not currently material. CalPERS staff concurs and would note that the rate computed in accordance with this GASB 27

requirement would be about 0.13% of payroll larger in the June 30, 2005 valuation (so immaterial).

However, EFI is concerned that, at some point in the future, the use of a payroll growth assumption in computing the amortization payment may need to be modified in order to ensure continued compliance with accounting standards. Staff concurs, but would point out that, within the next 10 years, it is projected that there will be less than 100 judges left in the Judges I System and that our payroll growth assumption will become 3.25%, which will be GASB 27 compliant. Staff agrees that a change may be appropriate in the future and will monitor the situation carefully to ensure that a change is made if necessary.

Another comment from EFI concerned the method used to smooth plan assets for funding determinations. EFI has discussed the issue with the Actuarial Office and we consider the potential asset fluctuations at the boundaries of the corridor to be a worthwhile tradeoff for the additional smoothing of employer costs.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial Office.

VI. RESULTS/COSTS:

There are no costs associated with this item other than the payment of EFI's fee under contract 2003-3236.



Nancy E. Campbell, Senior Pension Actuary
Actuarial Office



Ronald L. Seeling, Chief Actuary
Actuarial & Employer Services Branch

ATTACHMENT 1

**Copy of EFI's Report on the 6/30/04 Parallel Valuation of
the Judges' Retirement System II Plan**